




County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

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DAVID E. JANSSEN  
Chief Administrative Officer

February 13, 2004

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich  
From:   
David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

**SACRAMENTO UPDATE**

**Workers' Compensation Reform Hearings**

This week, the Assembly Committee on Insurance and the Senate Committee on Labor and Industrial Relations held informational hearings on workers' compensation Issues with no bills coming to a vote. Concurrently, Insurance Commissioner John Garamendi released an alternative reform plan aimed at bridging the Administration's plan contained in **County-supported ABX4 3 (Poochigian)** and legislative Democrats, and also, "Big Five" meetings on worker's compensation emerged in an attempt to craft an overall reform package acceptable to the Administration and legislative leaders.

Among the key elements of Commissioner Garamendi's plan are: 1) promotion of standardized and consistent methods for permanent disability determinations, 2) reduced delays in immediate benefits to injured workers and a longer period for employers to deny a claims from 90-days to one year, 3) promotion of independent medical examinations, 4) improved information sharing to combat fraud, 5) reform of late payment penalties, 6) increased powers for the Department of Insurance and district attorneys to identify and prosecute uninsured employers, and 7) increased return-to-work incentives. Attached is a summary of the plan. My office is analyzing this plan to assess its potential savings to the County.

Assembly and Senate hearings are scheduled to continue next week, and Big Five discussions are expected to continue as well.

### **Pursuit of County Position on Legislation**

**ABX4 1 (Maldonado)**, which is the Assembly version of **County-supported SBX4 3 (Poochigian)**, would provide additional reforms to the workers' compensation system beyond what was enacted last session. The bills would 1) link the penalty for late payments to the actual delayed payment, 2) allow employer input into the selection of treating physicians, 3) promote use of objective medical findings, 4) provide that awards are more directly linked to the extent of injuries received on the job, and 5) expand the existing dispute resolution process between bargaining units and private employers to include public employers. A preliminary analysis of the bills by CAO Risk Management indicates the measures would provide savings approaching \$35 million a year. **Therefore, because the bill is consistent with the County's workers' compensation reform priorities and would provide significant savings, our Sacramento Advocates will support SBX4 1.** The bill is pending consideration by the Assembly Committee on Insurance.

### **Status of County-Interest Legislation**

**County-opposed AB 31 (Runner)**, which would have re-appropriated \$203 million in FY 2003-2004 and distributed the funds to schools based on actual pupil attendance, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported AB 87 (Bogh)**, which would have, in the event of a budget impasse, provided a continuous appropriation to the Workers' Compensation Disaster Service Workers Fund to pay for on-the-job injuries incurred by disaster service volunteers, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-opposed AB 136 (Kehoe)**, which would have provided two years of workers' compensation leave to police officers and sheriffs, as well as firefighters, instead of the current one year, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported AB 431 (Mountjoy)**, which would have established a burden of proof for injuries to be classified as job-related and required individuals filing cumulative injury claims to provide by a preponderance of evidence that the injury was substantially caused by actual employment activities, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-sponsored AB 1153 (Bermudez)**, which would criminalize the unlawful or unauthorized use, manufacture, or sale of any official State, county, city, city and county, or agency badge, and/or associated photographic identification cards, with two exceptions; 1) the use of a badge in a fictitious or historical depiction of a public officer

or employee; and 2) a badge supplied by a recognized employee organization that represents firefighters, received Assembly concurrence on Senate amendments on February 12, 2004 by a vote of 58 to 0, and now proceeds to the Governor.

**County-supported AB 1480 (Richman)**, which would have required an applicant for employment, upon request of an employer, to disclose whether he or she had ever been convicted of committing acts that compromised the integrity of the workers' compensation system, including presenting any knowingly false or fraudulent written or oral statements in order to obtain or deny a claim for workers' compensation, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported AB 1481 (Richman)**, which would have prohibited the workers' compensation appeals board from determining permanent disability unless a medical report fully addressed the issue of apportionment of work relatedness in any injury, and required that such medical reports address how a previous injury or illness affected the current injury or illness, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported AB 1482 (Richman)**, which would have required that all medical services provided to a worker from the date of injury be subject to the official medical fee schedule, regardless of the date the injury is determined to be compensable, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported AB 1608 (Liu)**, which would have allowed an individual who is 17 years old and will be 18 years old by the date of the next general election, to register and vote in any intervening primary or special election, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported SB 365 (Johnson)**, which would have amended workers' compensation law to require that employment must be the predominant cause of injury, as compared to all other causes combined in determining eligibility for benefits, and would preclude benefits for an injury that is caused by a criminal act committed by the employee for which he or she has been convicted, failed to pass its house of origin by January 31, 2004, and is now dead.

**County-supported SB 976 (Ducheny)**, which would amend the Budget Act of 2002 by reverting \$5,713,000 from the Harbors and Watercraft Fund to the Public Beach Restoration Fund, and authorize the transfer of the funds for expenditure pursuant to the California Public Beach Restoration Act, was sent to enrollment on February 9, 2004, after the Senate concurred in Assembly amendments by a vote of 34 to 0. This bill now proceeds to the Governor.

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**County-supported SJR 23 (Ashburn and Knight)**, which would memorialize the Legislature's request to the Secretary of Defense to include "intellectual capital" and "total mission support" on the list of essential 2005 Base Realignment and Closure (BRAC) evaluation criteria, and instruct the Secretary to the Senate to send copies of the resolution to the Governor, the President, the Congressional Leadership, the appropriate Congressional Committees, and the California Congressional delegation, was sent to enrollment on February 9, 2004, after the Senate concurred in Assembly amendments by a vote of 33 to 0.

We will continue to keep you informed.

DEJ:GK  
MAL:JF:DdN:DS:ib

Attachment

c:     Executive Officer, Board of Supervisors  
       County Counsel  
       Local 660  
       All Department Heads  
       Legislative Strategist  
       Coalition of County Unions  
       California Contract Cities Association  
       Independent Cities Association  
       League of California Cities  
       City Managers Associations  
       Buddy Program Participants



## **The Garamendi Plan Bridging the Gap Between Workers and Employers Completing Workers' Compensation Reform**

On September 12, 2003, the California Legislature passed omnibus workers' compensation reform legislation, which was signed by Governor Davis and became law on January 1, 2004. This reform promises nearly \$5 billion in one-time savings and an additional \$5.6 billion in ongoing annual savings. My analysis indicates that workers' compensation pure premium rates should be decreased 14.9% below current levels. This results in an advisory pure premium rate level that is only 0.8% above July 2002 pure premium rates. However, for these savings to be realized, all participants in the workers' compensation system must live up to their responsibilities in implementing these reforms.

The 2003 workers' compensation reform is a very courageous and significant first step that addresses many of the largest cost drivers and moves us closer to a more functional, predictable and competitive workers' compensation market. However, while the Legislature can be proud of its recent accomplishments, the monumental task of workers' compensation reform is far from complete. As I have done since taking office, I will continue to make workers' compensation my top priority and I will work collaboratively with business, labor, the Governor, and the Legislature to return workers' compensation to the system originally envisioned in the historic bargain of 1913--a no-fault system that protects employers from liability and compensates injured workers equitably and efficiently. Below is a list of the issues that we must address in 2004 to complete that task.

### **Permanent Partial and Total Disability (PD)**

**Problem:** The current system for determining an injured worker's level of disability (PD, PPD, TD) is highly subjective and inconsistent leading to increased litigation and irrational settlements in which small injuries receive too much and serious injuries too little. Similar injuries should receive consistent PD ratings. This is not currently the case in California's PD rating system.

**Solution:** California must develop a more equitable and consistent permanent disability rating system based on objective assessments of disability. Restructuring permanent disability must be the top priority for 2004 workers' compensation reform. This can be done by (1) creating a more standardized and consistent method for the determination of impairment, and (2) reducing the frictional costs in the dispute resolution process by incorporating an independent medical examiner. Both of these changes will simplify the system, generate more equitable, efficient and timely PD settlements, and lead to dramatically lower levels of litigation within the system. The Rand Study on PD commissioned by CHSWC provides the foundation for a more efficient method of determining impairment. Permanent Partial and Total Disability reform should also address apportionment. An employer should not have to pay a second time for permanent disability that has already been awarded. Permanent Partial and Total Disability payments should be paid at the same rate as Temporary Disability (TD) payments for greater efficiency and to expedite PD payments to injured workers.

### **Immediate Benefits for Injured Workers**

**Problem:** For countless reasons, injured workers are too frequently denied the immediate, essential, and, often, basic medical treatment and indemnity benefits they are entitled to under the workers' compensation system. In nine out of ten cases, the injured worker is ultimately granted the medical care they or their physician initially requested. These unnecessary delays in benefit payments and medical treatment lead to unnecessary costs (increased medical, indemnity, and litigation). As untreated workers' medical conditions worsen, they take much longer to return to work, and they seek legal counsel to resolve the issues.

**Solution:** The employer must be responsible for providing immediate workers' compensation benefits (indemnity and medical treatment) to all injured workers. Employers will have up to one year to deny a claim as opposed to the current 90 day period. Employers should be able to deny a claim for fraud at any time. If fraud is proved, the employer is entitled to restitution. Employers will be responsible for all compensation benefits for specific injuries until the claim is denied.

#### **Effective and Efficient Medical Treatment**

**Problem:** Overutilization of medical services is a major cost driver that does not necessarily aid injured workers, extends injury claims, and wastes medical treatment resources. Numerous interstate comparisons and California-specific studies have demonstrated that overutilization of medical treatment is a serious problem within California's workers' compensation system. The 2003 reforms made significant improvements in establishing effective medical utilization controls by implementing evidence-based medical treatment guidelines and placing hard caps on chiropractic and physical therapy treatments. Despite these significant improvements, there is still more that needs to be done to complete the reform.

**Solution:** To build upon the 2003 reforms, we propose developing a strong definition of "reasonable medical treatment", utilizing a streamlined independent medical examination (IME) process, and indexing physician fees to Medicare. For the evidence-based clinical treatment guidelines to achieve full effect, they must be accompanied by a strong definition of "reasonable medical treatment." To reduce litigation and get workers the most appropriate medical care, the workers' compensation system should utilize a streamlined independent medical review process that incorporates an examination by an independent medical examiner (IME) who makes determinations on compensability, permanent disability, and medical treatment. Physician fees should be indexed to Medicare on a cost-neutral basis (115% of Medicare). This will create a consistent, predictable, familiar, cost-efficient and easily updateable payment standard.

#### **Anti-Fraud Measures**

**Problem:** The current culture of California's workers' compensation system is one where abuse and fraud are widespread and serve as a cost driver in the system. This culture must change. The high premiums, low benefits, and overall inequity of the current workers' compensation system contribute to an environment that is highly vulnerable to fraud. Workers' compensation fraud includes abusive and fraudulent provider billing practices (up-coding, unbundling, prescription billing, durable equipment, and services not rendered), medical-legal mills, and applicant and insider fraud. Numerous factors exacerbate and perpetuate workers' compensation fraud, including personal and business economic hardship, public acceptance of insurance fraud, and inadequate resources (manpower and funding) to investigate insurance fraud cases. Some insurance companies have also been derelict in their responsibility to fight fraud. The lack of uniform methodology and standards for assessing and reporting suspected fraud is a contributing factor.

**Solution:** The California Department of Insurance (CDI) is restructuring its fraud and investigative units to improve coordination efforts and to prioritize workers' compensation cases. The Department is also improving its working relationship with district attorneys and other state, federal, and local law enforcement agencies with an emphasis on information sharing. As part of these anti-fraud efforts, CDI supports increasing the powers of CDI and the district attorneys to identify and prosecute uninsured employers, making uninsured employers subject to felony charges, and providing immunity for individuals reporting suspected fraud.

#### **State Compensation Insurance Fund (SCIF or State Fund) Reform**

**Problem:** Elimination of the minimum rate law in 1995 led to a vicious cycle of underpricing workers' compensation premiums. Since that time, more than two-dozen workers' compensation insurance companies have been placed in regulatory conservation, liquidation, or supervision. As these companies failed and competition dwindled, State Compensation Insurance Fund, the insurer of last resort, picked up the slack, growing from 20% of California's workers' compensation market in 2001 to well over 50% of the market today. The impact of this rapid growth has placed enormous strain on the organizational structure and financial position of State Fund. To correct these problems, State Fund must undertake a series of difficult, but necessary adjustments to build up its financial strength.

**Solution:** The Legislature must clarify that the Insurance Commissioner's existing authority over State Fund is the same as over any other workers' compensation insurance company. Current law requires that all five voting SCIF Board Members must be SCIF policyholders 12 months prior to being appointed to the SCIF Board and during their entire tenure on the Board. We support adding two additional voting SCIF Board Members who are exempted from the SCIF policyholder requirement. This freedom and flexibility would allow recruitment of specialized expertise and fresh perspectives for SCIF oversight. Independent of legislation, State Fund should implement the reforms recommended in the IBM consulting report as appropriate. It should shed business that can be placed elsewhere in the market. State Fund should carefully evaluate its rating plan making sure all accounts are properly priced and ensure that savings from the 2003 workers' compensation reforms are reflected in those rates. State Fund should take necessary steps to increase enrollment in the Kaiser Alliance program to help control escalating health care costs.

### **Rationalize the Penalty Structure**

**Problem:** Penalties imposed on insurers for late and inadequate payment of claims should have a reasonable relationship to the violation. The current penalty structure is irrational, allowing penalties to be assessed against the species of benefits paid, both past and future, for the entire claim, rather than the specific amount of payment that was either delayed or refused. Consequently, in a case where \$200,000 in medical benefits was paid, a late \$10 payment on reimbursement for a prescription to an injured worker can result in a 10% penalty or \$20,000. The current structure provides strong incentives to allege penalties in order to gain larger settlements resulting in inequitable penalties and unnecessary litigation. The 2003 reforms exempted the California Insurance Guarantee Association (CIGA) from paying 5814 penalties on inherited claims, but the 5814 penalty structure was not addressed.

**Solution:** Require injured workers and their attorneys to timely and specifically report when they believe employers have unreasonably delayed or refused to pay benefits. Allow for disputes on unreasonably refused or delayed benefits to be resolved either through payment of an immediate no-fault penalty or, if litigated, the amount of penalty would increase to 25% on the amount in dispute or \$500, whichever is greater. This would help create a more responsive and rational penalty structure that effectively deters the specific negative conduct of the insurer or employer. It would also significantly diminish the opportunity to allege unwarranted penalties and reduce unnecessary litigation.

### **Return to Work**

**Problem:** The overall complexity of the workers' compensation system leads to miscommunication, misinformation and frustration for injured workers and employers. Furthermore, the current system often provides clearer incentives for injured workers to claim disability than to return to work quickly. The lack of communication and misguided incentives contribute to slower medical treatment, longer disability, and increased litigation.

**Solution:** The best outcome for an injured worker is to get them back to work as quickly as possible. It is the employers' responsibility to ensure this happens. We must restructure the system so that injured workers, employers and all other participants in the system have the proper incentives. Benefit systems must be structured so that injured workers want to return to work and employers want to accept injured workers back, even in a modified capacity, as quickly as possible. Doctors must be appropriately compensated for the time to evaluate return to work. More coordination, collaboration, and integrated communication between doctors, injured workers, and employers focused on getting the injured worker back to work is imperative. Health care organizations (HCOs), ombudsman, nurse case managers, and other similar programs all move the system in this direction. Changing incentives and improving communication will reduce time off work, permanent disability costs, and litigation costs.

### **Rate Regulation and CIGA Assessment**

**Problem:** In 1995, California's workers' compensation insurance market was radically deregulated. This led to a traditional insurance cycle of low premiums and excess capacity followed by high prices and restricted capacity. In the past few years, more than two-dozen workers' compensation insurance companies have become insolvent as a result of the price wars that evolved out of the deregulated market. California's workers' compensation insurance market is now uncompetitive with unsustainably high premiums that are driving companies out of business and out of the State. Both employers and insurers need stable and predictable workers' compensation insurance rates. Injured

workers need to be certain that there will be a source for payment for industrial injuries, in some cases for many years to come. It also became apparent after extensive reform of California's workers' compensation system in 2003 that there is no mechanism in the current system to ensure that savings from the legislative reform would be passed through directly to policyholders.

**Solution:** The CDI is proposing adoption of the key proposal from the 1992 Rate Study Commission - a mandatory minimum loss cost rate coupled with a uniform classification system. Unlike the pre-1995 Minimum Rate Law, a minimum loss cost law would not allow the Insurance Commissioner to set fixed rates for insurance company expenses. This reform will help stabilize California's workers' compensation market by creating a reasonable price floor and a benchmark for price comparison, flattening out unpredictable insurance cycles that helped create the current crisis, and providing a mechanism for passing through reform savings, not just for one year, but for the long term. We also support an assessment on deductible policies which will help bolster the California Insurance Guarantee Association and bring more equity to policyholders.

#### **Integrated System Carve Out Pilot**

**Problem:** Employers currently pay for workers' compensation medical costs which account for close to 60% of workers' compensation premiums or an estimated \$13.8 billion in 2004. Most employers also pay separately for health care benefits for their employees. Despite this overlapping coverage, many injured workers still do not get the immediate medical treatment they are entitled to due to causation questions. This delayed treatment often exacerbates injuries, encourages unnecessary litigation, and increases workers' compensation costs.

**Solution:** Currently, qualified joint union-employer "carve-outs" can negotiate a customized workers' compensation system for covered employees that utilizes existing health care services already provided as a benefit. This proposal would allow the establishment of a pilot program for seamless health, workers' compensation, and non-occupational disability benefit delivery in qualifying carve-outs, without regard to the cause of the sickness or disability. The pilot would be administered by a single administrator at a single location to minimize costs and delays. This could lead to significant savings by eliminating duplication of administrative costs in these systems and also eliminating legal costs related to determination of medical benefits. The pilot will be evaluated to determine objectively whether it should be expanded.

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2/10/04